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SUBJECT: ASIAN DEVELOPMENT BANK-FUNDED PORTION OF RING ROAD STALLED,
BUT RAILROAD MOVING FORWARD

¶1. (SBU) Summary: Responding to a recent ultimatum from the Afghan government, Chinese contractor CREC has minimally resumed work on a critical section of the ring road in Badghis, funded by the Asian Development Bank (ADB). The contractor had agreed in July to restart the project once the GIROA assigned 500 Afghan police officers to the site, but did not do so for almost three months. The Chinese contractor claimed security remained a persistent problem, despite the police presence. However, a Korean company working at a nearby location did not encounter any major security issues. On October 13, the Chinese Ambassador to Afghanistan reported to Embosffs that CREC now claims it has not resumed work because the new ADB-appointed site engineer is ineffective and has not been at the site. ADB has confirmed with us that the engineer is absent, but says there is no reason for him to be there if meaningful work is not underway. In contrast to the Chinese project, ADB reports it has genuine security concerns about a ring road section it plans to run through Badghis' Murghab Valley. The Army Corps of Engineers (ACE) is investigating whether it can take on this project. Work will start soon on an ADB-funded railroad from Hairaton to Mazar-i-Sharif, and the project should be finished in the next 14 to 21 months. End summary.

RING ROAD PROBLEMS PERSIST

¶2. (SBU) China Railway Engineering Corporation (CREC) recently resumed minimal work on the Qaisar - Bala Murghab portion of the ring road, thus ending a three-month construction halt, according to ADB Country Director Craig Steffensen. This resumption was undoubtedly prompted by a letter from Finance Minister Omar Zakhilwal to CREC demanding that work resume by October 10 or the Afghan Government would terminate the contract. Zakhilwal said if the contract is terminated, the Afghan Government and ADB would blacklist CREC from any future contracting opportunities. CREC would also have to pay a penalty of \$3.8 to \$4 million and forfeit its equipment.

¶3. (SBU) Earlier in July, Finance Minister Omar Zakhilwal offered to provide CREC with 500 police at ADB expense to guard the site, following the kidnapping of CREC employees in the first quarter of ¶2009. CREC assured Minister Zakhilwal it would resume work with this additional security. ABD paid the police officers \$50,000 per week to do nothing but guard equipment for most of the past three months. On October 10, however, ADB representatives reported that CREC had restarted a minimal amount of the work, but ADB could not verify to what extent construction had been reinitiated. While Steffensen admitted the security situation at the site is not ideal, he noted that a Korean contractor a few kilometers down the road has incurred just a few incidents with far less protection than the CREC project.

¶4. (SBU) In explaining the three-month hiatus, Steffensen said the Chinese Ambassador to Afghanistan Zheng Qingdian told him that the

Chinese Government had instructed all its Ambassadors to avoid security incidents that would mar the ongoing celebrations of the PRC's 60th anniversary. But on October 13, Zheng reported to Emboffs that CREC now claims it has not resumed work because the new ADB-appointed site engineer, who is from the UN Office of Project Services (UNOPS) is ineffective. According to Zheng, CREC says the engineer left the site after only two hours on his first day, saying he needed to study the situation. He has not returned since, and he is needed to serve as a liaison between CREC and the Afghan crew doing the work. ADB has confirmed with us that the engineer is absent, but says there is no reason for him to be there if meaningful work is not underway.

MEANWHILE, HERE'S THE REAL SECURITY PROBLEM

15. (SBU) The Qaisar - Bala Murghab is one of the few remaining portions of the ring road under construction. Another section through the Murghab valley in Badghis province may be even more challenging, Steffensen said. The local Spanish-led PRT warned him the road will be a terrorist target. ADB has asked ISAF, the ANA and PRT troops for protection. The project has three components: road building, security and a social component that includes school and mosque renovation, job creation and anything else needed to gain the local community's support. He said the community most desires electricity, but a transmission line would cost \$40 to \$50 million and the Ministry of Energy and Water (MEW) prioritizes more-populated areas. While the Spanish Government is helping develop the provincial capital of Qual-e Naw, Steffensen believes aid agencies have generally overlooked the province. He asked if the Army Corps of Engineers (ACE) could build the road. Ambassador Wayne said he would inquire, noting that current priorities focus on the South and East of Afghanistan. (Comment: ACE is now looking into whether they can build the road. End Comment.)

RAIL PROJECT STEAMS AHEAD

16. (SBU) In contrast to the ring road, ADB's northern railroad project is going well. On September 30, ADB's board approved an 80-kilometer rail line from Hairaton, near the Uzbek border, to Mazar-i-Sharif. The contract calls for completion by June 2011, but Steffensen said contractor Uzbek Railways had assured the ADB it will complete work by December 2010. ADB views this project as the first phase of a rail corridor linking Mazar-e-Sharif, Herat, Jalalabad and border points with Pakistan. Steffensen noted said state-owned Uzbek Railways is shrewd to build the first phase, ensuring the line would be Russian gauge, ensuring smooth connections with the Soviet- built rail systems of Afghanistan's northern neighbors.

17. (SBU) Security costs for the rail project should total about \$10 to \$16 million out of a total \$170 million budget. Steffensen added that RC-North commanders support the project.

USING THE AFGHANISTAN RECONSTRUCTION FUND?

18. (SBU) With \$900 million worth of projects underway, ADB is the second-largest development agency in Afghanistan (behind USAID). Steffensen said three employees have been killed, and 19 kidnapped, in the past year, and that he has a hard time attracting skilled expats, particularly to sites outside of Kabul.

19. (SBU) Steffensen suggested that the USG consider co-financing ADB projects using Afghan Reconstruction Trust Fund (ARTF) money. He said most donors do not currently use this mechanism, but that it would help support larger projects. Although ARTF rules prohibit prioritizing funds for specific areas, Steffensen, an ARTF management committee member, indicated that such projects could be earmarked in a more general way. Ambassador Wayne agreed this could be worth exploring.

EIKENBERRY